

January 20, 2004

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Thomas M. Dorman  
Executive Director  
Kentucky Public Service Commission  
211 Sower Blvd.  
Frankfort, KY 40602-0615

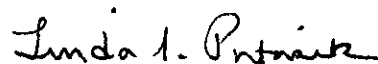
*Re: An Investigation Pursuant to KRS 278.260 of the Earnings Sharing Mechanism  
Tariffs of Kentucky Utilities Company, Case No. 2003-00334*

Dear Mr. Dorman:

Please find an original and ten (10) copies of Kentucky Utilities Company's Amended Response to Question No. 28 of the First Data Request of the Commission Staff in the above-referenced proceeding. Copies of this amended response have been served on all parties.

Please direct any questions to me at 502/627-2557.

Very truly yours,



Linda S. Portasik  
Counsel for Kentucky Utilities Company

cc (w/enclosures): All Parties on Service List

**KENTUCKY UTILITIES COMPANY**

**CASE NO. 2003-00334**

**Amended Response to First Data Request of Commission Staff dated October 30, 2003**

**Question No. 28**

**Responding Witness: Michael S. Beer**

Q-28. Refer to the responses to the First Set of Data Requests of Kentucky Industrial Utility Customers, Inc. to BWG, Item 3, page 23 of 24. The response to BWG Data Request No. 6-93 shows that KU had Research and Development ("R&D") expenditures of \$1,351,100 in 1998 and \$840,900 in 1999. The response also shows no R&D expenditures since 1999. In Case No. 2000-00095, the acquisition of LG&E Energy by Powergen, KU indicated it would continue funding R&D programs as long as the programs produced benefits. KU, LG&E Energy, and Powergen committed to notifying the Commission in writing 30 days prior to any material change in their participation in funding for R&D, with changes including a change in funding equal to or greater than 5 percent of the previous year's budget for R&D. In Case No. 2001- 00104, this commitment was reaffirmed as part of the E.ON acquisition of Powergen.

- a. Did KU notify the Commission in writing when its R&D expenditures were reduced to zero in 2000? Explain the response.
- b. During the processing of Case No. 2000-00095, was KU aware it would not be making any R&D expenditures in 2000, even while it was indicating to the Commission its general support of R&D? Explain the response.
- c. Explain why KU has not had any R&D expenditures since 1999.
- d. Explain in detail why KU is not at least in violation of the intent of its 2000 R&D commitment.

A-28. a. No.

KU did not so notify the Commission because R&D expenditures were not reduced to zero in 2000. In fact, KU was and remains a member of the Electric Power Research Institute ("EPRI"), and actively participates in various EPRI-sponsored programs. With respect to corporate membership dues, KU stopped booking these dues after 2000 because Powergen assumed responsibility for the payment thereof (from 2001-2003). Moreover, apart from EPRI membership dues, KU has paid for, and participated in, various R&D programs sponsored by EPRI during and after 2000. These EPRI-related expenses for calendar years 2000, 2001 and 2002 were \$499,041, \$454,446 and \$477,798, respectively. Any prior statements to the contrary to BWG inadvertently omitted reference to these expenditures.

Statements to BWG were based upon R&D expenditures as reported in KU's FERC Form 1s for the applicable periods. Those FERC Form 1s reported zero R&D expenditures. KU has revised its internal controls to pick up the aforementioned R&D expenditures for future FERC Form 1 filings. Also, these changes will allow KU to trigger, if necessary, the reporting of R&D expenditures to the Commission as required in the Commission's Orders in Case Nos. 2000-00095 and 2001-00104.

- b. Please see the response to Question No. 28(a).
- c. Please see the response to Question No. 28(a).
- d. Please see the response to Question No. 28(a).